Financial & Managerial Accounting Associate

FMAA Exam Support Package

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FMAA Exam Sample Questions

Section A. General Accounting and Financial Management

1. On July 15, a company entered into a three-month agreement to rent a machine the company needed to complete a special order. The machine would be delivered on August 1, and rental payments are due on the first day of each rental month. How would this event impact the company's July 31 financial statements?

a. Cause no change in assets, liabilities, or income.
b. Increase both assets and income.
c. Increase both assets and liabilities.
d. Increase liabilities and decrease income.

2. A balance sheet provides a basis for all of the following **except**

a. computing rates of return.
b. evaluating capital structure.
c. assessing liquidity and financial flexibility.
d. determining profitability and assessing past performance.

3. The financial statement that provides a summary of a company's operations for a period of time is the

a. income statement.
b. statement of financial position.
c. statement of shareholders' equity.
d. statement of retained earnings.

4. All of the following are elements of an income statement **except**

a. expenses.
b. shareholders' equity.
c. gains and losses.
d. revenue.

5. Which one of the following correctly describes the statement of shareholders' equity?

a. It reconciles the beginning and ending balances in shareholders' equity accounts.
b. It lists all shareholders' equity accounts and their corresponding dollar amounts.
c. It computes the number of shares outstanding used for earnings per share calculations.
d. It reconciles the beginning and ending balances in the retained earnings account.

6. Which one of the following items could be identified on the cash flow statement prepared using the indirect method?

a. The payment of interest expense of $200,000.
b. A change in unrealized holding gains of $50,000.
c. A settlement of a lawsuit that was previously accrued.
d. Depreciation related to buildings and equipment.

7. Dividends paid to company shareholders would be shown on the statement of cash flows as

a. operating cash inflows.
b. operating cash outflows.
c. cash flows from investing activities.
d. cash flows from financing activities.

8. All of the following are categories on the statement of cash flows **except**

a. operating activities.
b. equity activities.
c. investing activities.
d. financing activities.

9. The purchase of fixed assets should be accounted for on the statement of cash flows as a(n)

a. operating activity.
b. investing activity.
c. financing activity.
d. noncash investing and financing activity.

10. A statement of cash flows prepared using the indirect method would have cash activities listed in which one of the following orders?

a. Financing, investing, operating.
b. Investing, financing, operating.
c. Operating, financing, investing.
d. Operating, investing, financing.

11. A company acquired land by assuming a mortgage for the full acquisition cost. This transaction should be disclosed on the company's statement of cash flows as a(n)

a. financing activity.
b. investing activity.
c. operating activity.
d. noncash financing and investing activity.

12. Which one of the following should be classified as an operating activity on the statement of cash flows?

a. A decrease in accounts payable during the year.
b. An increase in cash resulting from the issuance of previously authorized common stock.
c. The purchase of additional equipment needed for current production.
d. The payment of a cash dividend from money arising from current operations.

13. Which one of the following would result in a decrease to cash flow in the indirect method of preparing a statement of cash flows?

a. Amortization expense.
b. Decrease in income taxes payable.
c. Proceeds from the issuance of common stock.
d. Decrease in inventories.

14. Which one of the following is **not** provided by the statement of cash flows?

a. The company's ability to pay dividends and meet obligations.
b. The company's ability to generate future cash flows.
c. The company's management with respect to the efficient and profitable use of the company's resources.
d. The company's cash and noncash investing and financing transactions during the period.

15. During the year, a company acquired a long-term productive asset for $5,000, and it also borrowed $10,000 from a local bank. These transactions should be reported on the company's statement of cash flows as

a. outflows from investing activities, $5,000; inflows from financing activities, $10,000.
b. inflows from investing activities, $10,000; outflows from financing activities, $5,000.
c. outflows from operating activities, $5,000; inflows from financing activities, $10,000.
d. outflows from operating activities, $5,000; inflows from investing activities, $10,000.

16. Three years ago, Jim Company purchased stock in Zebra Inc. at a cost of $100,000. This stock was sold for $150,000 during the current fiscal year. The result of this transaction should be shown in the investing activities section of Jim's current year cash flow statement as

a. $0.
b. $50,000.
c. $100,000.
d. $150,000.

17. A production system in which a unit is produced only when needed in the next step in the production line is called a

a. just-in-time system.
b. back-flush system.
c. Pareto system.
d. material requirements planning system.

18. When an external auditor is assessing a company's internal control structure policies and procedures, the auditor's primary consideration is whether they

a. prevent management override.
b. relate to the control environment.
c. reflect management's philosophy and operating style.
d. affect the financial statement assertions.

19. Which one of the following functions performed in an organization is a violation of internal control?

a. A mail clerk opening the mail compares the check received with the source document accompanying the payment, notes the amount paid, and then forwards the checks daily (along with a listing of the cash receipts) to the cashier for deposit.
b. A mail clerk opening the mail compares the check received with the source document accompanying the payment, notes the amount paid, and then forwards the source documents that accompany the payments (along with a listing of the cash receipts) to accounts receivable daily for posting to the subsidiary ledger.
c. At the end of the week, a cashier prepares a deposit slip for all of the cash receipts received during the week.
d. A general ledger clerk compares the summary journal entry received from the cashier for cash receipts applicable to outstanding accounts, with the batch total for posting to the subsidiary ledger by the accounts receivable clerk.

20. A company's selected financial information for the most recent fiscal year is provided below.

Cash	$ 10,000
Accounts receivable	20,000
Prepaid expenses	8,000
Inventory	42,000
Accounts payable	15,000
Notes payable (due in 90 days)	25,000
Bonds payable (due in 10 years)	35,000
Net credit sales for year	220,000
Cost of goods sold	140,000

The company's net working capital at year end is

a. $40,000.
b. $37,000.
c. $28,000.
d. $10,000.

21. All of the following are affected when merchandise is purchased on credit **except** the

a. total current assets.
b. net working capital.
c. total current liabilities.
d. quick ratio.

22. Which one of the following transactions would properly reflect the debits and credits used to record the purchase of $10,000 in inventory using $6,000 cash with $4,000 still owed to the vendor?

a. Debit: inventory $6,000; debit: accounts receivable $4,000; credit: cash $6,000; credit: accounts payable $4,000.
b. Debit: assets $10,000; credit: liabilities $10,000.
c. Debit: inventory $10,000; credit: cash $6,000; credit: accounts payable $4,000.
d. Debit: inventory $10,000; credit: cash $6,000; credit: accounts receivable $4,000.

23. A company makes a $1,000 mortgage payment every month to pay for its manufacturing plant; $200 of this payment is for interest on the loan. What is the correct journal entry to record this transaction?

a. Debit: cash $1,000; credit: loans payable $1,000.
b. Debit: loans payable $1,000; credit: cash $1,000.
c. Debit: building $1,000; credit: loans payable $1,000.
d. Debit: loans payable $800; debit: interest expense $200; credit: cash $1,000.

24. A company is changing its credit terms from net 30 to 2/10, net 30. The **least** likely effect of this change would be a(n)

a. increase in sales.
b. shortening of the cash conversion cycle.
c. increase in short-term borrowings.
d. lower number of days sales outstanding.

25. All of the following are carrying costs of inventory **except**

a. storage costs.
b. insurance costs.
c. shipping costs.
d. opportunity costs.

26. A safety stock can protect against risks, **except** for which one of the following situations?

a. Customers cannot find the merchandise they want, so they will go to the competition.
b. Shipments of merchandise from the manufacturers are delayed by as much as one week.
c. The distribution of daily sales will have a large variance due to holidays, weather, advertising, or weekly shopping habits.
d. New competition may open in the company's market area.

27. The primary objective of financial statement reporting is to meet the needs of

a. investors and creditors.
b. supervisors and managers.
c. staff and customers.
d. officers and auditors.

28. A publicly-traded corporation issues 10,000 shares of new common stock for $50 per share. The common stock has a par value of $5 per share. Which one of the following statements is correct?

a. Cash increases by $500,000, and common stock increases by $500,000.
b. Additional paid-in capital increases by $500,000; no other accounts are affected.
c. Cash increases by $500,000, common stock increases by $50,000, and additional paid-in capital increases by $450,000.
d. Cash increases by $450,000, common stock increases by $50,000, and additional paid-in capital increases by $500,000.

29. An accountant is preparing a company's cash flow statement and is evaluating how to classify certain transactions. The company paid dividends, invested in the stock of other corporations, sold plant and equipment, and reacquired some of its own stock. Which of these would be in the cash flow from financing activities in the statement of cash flows?

a. Only the dividends.
b. Only the investment in the stock of other corporations.
c. The dividends and the reacquiring of stock.
d. The selling of plant and equipment and the reacquiring of some of its stock.

30. Which one of the following is a benefit of implementing a just-in-time manufacturing system?

a. Increased number of external suppliers gains better control.
b. Lower foreign exchange risk when working with international suppliers.
c. Reduced costs for reworking defective outputs.
d. Faster response to customers because of higher inventory buffer stocks.

31. A company is planning to implement a just-in-time (JIT) inventory management system. All of the following are benefits expected from implementing JIT **except**

a. lower investment in inventory.
b. lower obsolescence and other carrying costs.
c. higher inventory turnover.
d. better control over suppliers.

32. A company had the following account balances at year-end.

Sales	$452,000
Cash	23,400
Accounts payable	14,300
Rent expense	3,700
Accounts receivable	9,400
Cost of goods sold	214,000
Land	104,000
Unearned revenue	6,800
Gain on sale	17,500
Equipment	28,800
Inventories	2,200
Notes payable	17,000

What is the amount of total current assets reported on the balance sheet?

a. $35,000.
b. $39,900.
c. $59,300.
d. $63,800.

33. All of the following are limitations of the balance sheet **except** that

a. the balance sheet is prepared using management judgments and estimates.
b. assets and liabilities are usually recorded at historical cost, which might differ significantly from current market value.
c. the balance sheet provides information on the liquidity and solvency of the company.
d. the balance sheet omits many items that cannot be recorded objectively but which have financial value to the company.

34. For a manufacturing company, which one of the following would be included in cash outflows from financing activities on the statement of cash flows?

a. Payment of salaries and wages.
b. Repayment of the principal portion of company debt.
c. Issuance of new stock.
d. Interest payments on company debt.

35. A company has the following account balances.

Cash	$160,000
Equipment	50,000
Inventory	35,000
Accounts receivable	25,000
Accrued wages	10,000
Long-term debt	30,000
Accounts payable	5,000

What is the company's net working capital?

a. $180,000.
b. $205,000.
c. $220,000.
b. $225,000.

36. A company holding cash for a speculative motive is holding cash to

a. pay bills.
b. protect against uncollectible receivables.
c. provide a safety margin.
d. take advantage of future investment opportunities.

37. Which one of the following measures may be used by a company to limit access to its physical hardware?

a. Anti-spyware software.
b. Firewalls.
c. Access cards.
d. System authentication.

38. Which one of the following would violate basic principles of internal control?

a. An accounts payable clerk has access to the approved supplier master file for purchases.
b. A department supervisor approves employees' weekly working hours.
c. A bookkeeper prepares the cash deposits, while another bookkeeper enters the collections in the journal and ledger.
d. A department supervisor performs a surprise count of inventory.

39. A small business must limit its financial staff to three employees. One employee is responsible for opening mail, preparing a list of checks received, and bringing deposits to the bank. Which one of the following activities could also be assigned to this staff position without risking the internal control function?

a. Reconcile bank accounts.
b. Maintain petty cash.
c. Record accounts receivable.
d. Maintain personnel records.

40. To enter its data center, a company requires that an individual must submit to a multifactor authentication control including a new biometric credential. This credential requirement will

a. improve controls over data processing to ensure complete and accurate processing.
b. detect situations when there has been unauthorized physical access to hardware.
c. improve data encryption in the data center through better user validation.
d. strengthen control over the physical access to the hardware in the data center.

41. Which one of the following statements represents appropriate internal control?

a. A single employee creates all vendor accounts and approves all invoices, and since this employee knows all vendors, false invoices are less likely to be paid.
b. Two employees have bank log-in information, and because of this dual system access, no banking fraud can occur.
c. A single employee approves all payments in the accounting system, but this employee cannot approve system invoices; therefore, fraudulent payments are less likely to occur.
d. A single employee approves every expense report on a monthly basis, and since a single approver profile is set up in the reporting system, erroneous expense claims are less likely to be paid.

42. To establish an effective internal control environment, which one of the following pairs of functions should be performed by different individuals?

a. Recording cash receipts and disbursements.
b. Preparing bank reconciliations and tax returns.
c. Creating purchase requisitions and receiving the merchandise.
d. Preparing deposit slips and sending deposit slips and checks to the bank.

43. Which one of the following controls would **best** protect a company's programs and databases from unauthorized use?

a. Antivirus programs installed to constantly scan the company's systems.
b. Multiple levels of authentication used to verify the identity of a user seeking access.
c. Proper segregation of duties enabled by separating access and processing rights.
d. Passwords strengthened by requiring frequent changes and minimum lengths.

44. The correct category in the chart of accounts for additional paid-in capital is

a. assets.
b. equity.
c. expenses.
d. liabilities.

45. The amount owed by a company to its creditors is referred to as its

a. assets.
b. equity.
c. expenses.
d. liabilities.

46. The correct category in the chart of accounts for cost of goods sold is

a. assets.
b. equity.
c. expenses.
d. liabilities.

47. Something that a business owes and that is payable within the next 12 months is called a

a. current liability.
b. long-term liability.
c. current asset.
d. long-term asset.

48. The amount of property that a company owns is referred to as its

a. assets.
b. equity.
c. expenses.
d. liabilities.

49. An owner's claims on the assets of a company are referred to as the company’s

a. assets.
b. equity.
c. expenses.
d. liabilities.

50. A company owns a building that still has a mortgage on it. What is the proper accounting classification for the building?

a. Current asset.
b. Long-term asset.
c. Current liability.
d. Long-term liability.

51. A company has $2 million of current assets, $8 million of noncurrent assets, $4 million of current liabilities, and $5 million of equity. For its balance sheet to balance, it must also have $1 million of

a. revenue.
b. cash.
c. noncurrent liabilities.
d. expenses.

52. The accounting equation can be expressed as

a. liabilities = assets - equity.
b. liabilities = assets - expenses.
c. equity = assets + liabilities.
d. liabilities = assets + equity.

53. Which one of the following financial statements **best** reflects the accounting equation?

a. Balance sheet.
b. Income statement.
c. Statement of cash flows.
d. Audit report.

54. XYZ Corporation pays ABC Corporation $120,000 in advance on January 1 for it to conduct a 12-month study on possible acquisitions. What is the impact on the accounting equation of this transaction on ABC's books in February?

a. Assets, $(10,000); liability, $0; equity, $(10,000).
b. Assets, $0; liability, $(10,000); equity, $10,000.
c. Assets, $0; liability, $0; equity, $0.
d. Assets, $0; liability, $10,000; equity, $(10,000).

55. A company buys inventory on credit. How does this transaction impact the chart of accounts?

a. Debit: assets; credit: equity.
b. Debit: liabilities; credit: assets.
c. Debit: assets; credit: liabilities.
d. Debit: assets; credit: assets.

56. What is the purpose of a trial balance?

a. To determine whether a company had a profit or loss.
b. To ensure that total debits equal total credits.
c. To provide assurance that there was no fraud.
d. To confirm that all account balances are correct.

57. A publishing company sold $7,000 in magazine subscriptions. To date, the company has received payments totaling $5,000 of the $7,000 total subscriptions. According to the accrual accounting rulings, when should revenue be recognized?

a. As payments are received.
b. When the magazine is sent to subscribers.
c. When the customer confirms receipt.
d. Not until all $7,000 in subscription payments are received.

58. A company moves to a new location and sells its old building. The sale would be included in

a. gross profit.
b. income from continuing operations.
c. income from discontinued operations.
d. income from extraordinary items.

59. Income from continuing operations is

a. total sales of a primary product or service.
b. sales of a primary product or service less all expenses.
c. revenue less expenses from operating a primary business.
d. all revenue less expenses.

60. The income statement recognizes all of the following except

a. cash received on a prior year's sale.
b. selling expenses.
c. interest expense of a retail organization.
d. expenses that do not necessarily affect the primary operations of the business.

61. Last month, a company reported the following revenues and expenses.

Sales	$87,923
Interest income	5,483
Cost of sales	52,854
Wages and benefits	12,854
Utilities	4,569
Interest expense	3,282
Selling expense	1,629
Depreciation	856
Income tax expense	6,077
Total shares outstanding:	10,000

Based on this information, what was the gross profit for the company during this period?

a. $11,285.
b. $15,161.
c. $17,362.
d. $35,069.

62. Last month, a company reported the following revenues and expenses:

Sales	$87,923
Interest income	5,483
Cost of sales	52,854
Wages and benefits	12,854
Utilities	4,569
Interest expense	3,282
Selling expense	1,629
Depreciation	856
Income tax expense	6,077
Total shares outstanding:	10,000

Based on this information, what was the operating income for the company during this period?

a. $11,285.
b. $15,161.
c. $17,362.
d. $35,069.

63. A company borrowed money from the bank to fund necessary inventory purchases. As a result, the company must pay the bank monthly interest of $5,241. This month, the company showed a gross profit of $17,934 and SG&A expenses of $9,964. The income tax rate for the company is 33%. Based on this information, what should the company report as its net income before taxes?

a. $17,934.
b. $7,970.
c. $2,729.
d. $1,829.

64. A company has $1,000,000 in assets and $300,000 in liabilities. What is the owner's equity for the company?

a. $1,300,000.
b. $700,000.
c. $300,000.
d. This cannot be determined with the information provided.

Section B. Financial Statement Preparation and Analysis

1. When a fixed asset is sold for less than book value, which one of the following will decrease?

a. Total current assets.
b. Current ratio.
c. Net profit.
d. Net working capital.

2. Shown below are components of a company's financial statements.

Sales revenue	$ 600,000
Cost of goods sold	300,000
Total assets	2,400,000
Total equity	1,500,000
Net income	120,000

What percentage value would net income be on a common-size financial statement?

a. 5%.
b. 8%.
c. 20%.
d. 40%.

3. A company's financial statements for the past two years have the following values.

	Previous Year	Current Year
Sales revenue	$ 6,000,000	$ 6,600,000
Net income	500,000	540,000
Total assets	10,000,000	10,500,000
Inventory	600,000	500,000

Using horizontal analysis, what account has the **largest** percentage change?

a. Sales revenue.
b. Net income.
c. Total assets.
d. Inventory.

4. In analyzing the short-term liquidity of a company, many analysts prefer to use the quick ratio rather than the current ratio. The primary reason for this preference is that the

a. quick ratio excludes accounts receivables.
b. current ratio includes marketable securities, which may be mispriced.
c. pro-forma cash flow statements focus on cash only.
d. conversion of inventory into cash is less reliable.

5. The selected financial data of a luggage manufacturer is shown below.

Cash	\$531,000
Accounts receivable	439,000
Inventory	300,000
Marketable securities	200,000
Current liabilities	500,000
Long-term liabilities	676,000

Based on the information provided, the luggage manufacturer's quick ratio is

a. 1.25.
b. 1.94.
c. 2.34.
d. 2.94.

6. A company has current assets of \$7,500,000 and a current ratio of 2.3 times before purchasing \$750,000 of merchandise on credit for resale. After this purchase, the current ratio will

a. remain at 2.3 times.
b. be higher than 2.3 times.
c. be lower than 2.3 times.
d. be exactly 2.53 times.

7. All of the following are included when calculating the acid-test ratio **except**

a. six-month treasury bills.
b. prepaid insurance.
c. accounts receivable.
d. 60-day certificates of deposit.

8. If a company has a current ratio of 2.1 and pays off a portion of its accounts payable with cash, the current ratio will

a. decrease.
b. increase.
c. remain unchanged.
d. move closer to the quick ratio.

9. Which one of the following effects does the use of debt in the capital structure of a company have?

a. Increases the company's financial leverage.
b. Increases the company's operating leverage.
c. Decreases the company's financial leverage.
d. Decreases the company's operating leverage.

10. Which one of the following is the **best** indicator of long-term debt paying ability?

a. Working capital turnover.
b. Asset turnover.
c. Current ratio.
d. Debt-to-total assets ratio.

11. A company has the following financial data.

Current assets	\$640,000
Total assets	990,000
Long-term liabilities	130,000
Current ratio	3.2 times

The company's debt-to-equity ratio is

a. 0.50.
b. 0.37.
c. 0.33.
d. 0.13.

12. A company’s financial statements show the following information.

Accounts receivable, end of Year 1	$ 320,000
Credit sales for Year 2	3,600,000
Accounts receivable, end of Year 2	400,000

The accounts receivable turnover ratio is

a. 0.10.
b. 9.00.
c. 10.00.
d. 11.25.

13. A company has decided to include certain financial ratios in its year-end annual report to shareholders. Selected information relating to its most recent fiscal year is provided below.

Cash	$ 10,000
Accounts receivable (end of year)	20,000
Accounts receivable (beginning of year)	24,000
Inventory (end of year)	30,000
Inventory (beginning of year)	26,000
Notes payable (due in 90 days)	25,000
Bonds payable (due in 10 years)	35,000
Net credit sales for year	220,000
Cost of goods sold	140,000

Using a 365-day year, the company’s days sales outstanding in receivables is

a. 26.1 days.
b. 33.2 days.
c. 36.5 days.
d. 39.8 days.

14. A company has the following financial data.

	Beginning of the Year	End of the Year
Inventory	$6,400	$7,600
Accounts receivable	2,140	3,060
Accounts payable	3,320	3,680

Total sales for the year were $85,900, of which $62,400 were credit sales. The cost of goods sold was $24,500. The inventory turnover ratio for the year was

a. 3.2 times.
b. 3.5 times.
c. 8.2 times.
d. 8.9 times.

15. A company had net accounts receivable of $168,000 and $147,000 at the beginning and end of the year, respectively. The company's net income for the year was $204,000 on $1,700,000 in total sales. Cash sales were 6% of total sales. The accounts receivable turnover ratio for the year is

a. 9.51.
b. 10.15.
c. 10.79.
d. 10.87.

16. A company's net accounts receivable were $68,000 and $47,000 at the beginning and end of the year, respectively. The condensed income statement is shown below.

Sales	$900,000
Cost of goods sold	527,000
Operating expenses	175,000
Operating income	198,000
Income tax	79,000
Net income	$119,000

Assuming that all sales are credit sales, the days sales outstanding in receivables (using a 360-day year) is

a. 8 days.
b. 13 days.
c. 19 days.
d. 23 days.

17. A company had net sales of $3,000,000; average fixed assets of $1,300,000; and total assets of $2,000,000. The company's fixed asset turnover is

a. 1.5 times.
b. 43.3%.
c. 2.3 times.
d. 65%.

18. A company's assets are presented below.

	January 1	December 31
Cash	$ 48,000	$ 62,000
Marketable securities	42,000	35,000
Accounts receivable	68,000	47,000
Inventory	125,000	138,000
Plant and equipment, net	325,000	424,000

For the year just ended, the company had net income of $96,000 on $900,000 of sales. The total asset turnover ratio is

a. 1.27.
b. 1.37.
c. 1.48.
d. 1.50.

19. A company has $450,000 of assets, $250,000 of liabilities, and $200,000 of common equity at the beginning of the fiscal year. The company's management is projecting that net income for the current fiscal year will be $55,000 and common equity at the end of the fiscal year will be $210,000. What is the company's ROE at the end of the fiscal year?

a. 12.2%.
b. 22.0%.
c. 26.8%.
d. 27.5%.

20. A company is currently reviewing the most recent fiscal year's results of operations and notes an increase in the return on assets ratio when compared to the prior year. Which one of the following could have caused the increase?

a. Sales decreased by the same dollar amount that expenses increased.
b. Sales increased by the same dollar amount as expenses and total assets.
c. Sales remained the same, and expenses and total assets decreased.
d. Sales remained the same, and ending inventory decreased.

21. During inflationary periods, LIFO inventory accounting will generally have a

a. lower cost of goods sold and lower inventory value.
b. lower cost of goods sold and higher inventory value.
c. higher cost of goods sold and higher inventory value.
d. higher cost of goods sold and lower inventory value.

22. A construction company purchases a new truck for $480,000. The truck is expected to last 10 years. At the end of the truck's useful life, the company will be able to sell some of the truck parts for $10,000. What is the Year 1 depreciation of this asset using the double declining balance depreciation method?

a. $9,400.
b. $47,000.
c. $48,000.
d. $96,000.

23. Which one of the following statements reflects a **disadvantage** of the LIFO inventory valuation method?

a. It rarely approximates the physical flow of inventory.
b. Current costs are not matched to the current revenues.
c. It often can cause acceleration of income tax impacts.
d. It can negatively impact a company's cash flow.

24. In periods of inflation, the use of the FIFO method for inventory costing instead of LIFO will lead to

a. better overall cash flow.
b. lower current assets.
c. higher gross profit margin.
d. higher inventory turnover ratio.

25. A distributor sells a single product and had a beginning inventory of 10,150 units at a cost of $60,900. During the year, 70,100 units were purchased at $7.50 each. Using FIFO, what is the value of the ending inventory consisting of 11,500 units?

a. $69,000.
b. $71,025.
c. $84,225.
d. $86,250.

26. After a company's preliminary financial statements were prepared, the CFO asked an accountant to prepare a horizontal analysis of the income statement. Which one of the following is an example of horizontal analysis?

a. Analyzing the decrease in gross margin.
b. Summarizing the components of operating expenses.
c. Calculating income tax as a percentage of revenue.
d. Calculating earnings before interest and taxes.

27. A company had sales in its first year of operation of $3,450,800 and $4,576,000 in the second year. Salary expenses for the business were $568,920 in Year 1 and $622,310 in Year 2. What is the annual growth rate in salaries?

a. 8.58%.
b. 9.38%.
c. 13.60%.
d. 18.03%.

28. Which one of the following changes will **most** likely increase the quick ratio?

a. Increase in inventory.
b. Decrease in accounts receivable.
c. Increase in short-term government bonds.
d. Decrease in cash.

29. Which one of the following statements about the interest coverage ratio is **true**?

a. It is a liquidity ratio calculated with income statement information.
b. It is a leverage ratio calculated with income statement information.
c. It is a liquidity ratio calculated with balance sheet information.
d. It is a leverage ratio calculated with balance sheet information.

30. A company has $100,000 of total assets and $80,000 of total liabilities; $20,000 of the company's liabilities are current liabilities. What is the company's long-term debt-to-equity ratio?

a. 1.0.
b. 3.0.
c. 4.0.
d. 5.0.

31. How does solvency differ from liquidity?

a. Solvency refers to bankruptcy; liquidity is a financial reporting concept.
b. Solvency is the ability to pay over the short term; liquidity concerns the long term.
c. Solvency is the ability to pay over the long term; liquidity concerns the short term.
d. Solvency is not influenced by a company's capital structure; liquidity is based on it.

32. A company has net sales of $4,000,000; operating income of $1,200,000; and net income of $1,000,000. Average total assets are $9,000,000; and average total equity is $7,000,000. What is the company's ROE?

a. 11%.
b. 13%.
c. 14%.
d. 17%.

33. Selected financial information for Company Y and Company Z is shown below.

	Company Y	Company Z
Net sales	$3,000,000	$3,000,000
Cost of sales	1,500,000	1,000,000
Net income	180,000	150,000
Total assets	2,000,000	3,000,000

When comparing the two companies, which one of the following statements is correct?

a. Company Y has a higher gross profit margin and a higher net profit margin.
b. Company Y has a lower gross profit margin and a lower net profit margin.
c. Company Y has a higher gross profit margin and a lower net profit margin.
d. Company Y has a lower gross profit margin and a higher net profit margin.

34. An accountant is examining the gross profit margin percentage, operating profit margin percentage, and net profit margin percentage for a company. The accountant finds that the sales revenue should be $400,000 higher, and the cost of goods sold should be $400,000 higher as well. Which of the following would change?

a. Only the gross profit margin percentage.
b. Only the operating profit margin percentage.
c. Only the net profit margin percentage.
d. The gross profit margin percentage, the operating profit margin percentage, and the net profit margin percentage.

35. During inflationary periods, compared to LIFO inventory accounting, FIFO inventory accounting will generally show

a. lower cost of goods sold and lower inventory value.
b. lower cost of goods sold and higher inventory value.
c. higher cost of goods sold and higher inventory value.
d. higher cost of goods sold and lower inventory value.

36. A company had $5 million in sales, $3 million in cost of goods sold, and $1 million in selling and administrative expenses during the last fiscal year. If the company's income tax rate was 25%, what was the company's gross profit margin percentage?

a. 20%.
b. 30%.
c. 40%.
d. 50%.

37. Selected information from a company's year-end balance sheet is shown below.

Balance Sheet
As of December 31, Year 1

Cash	$ 50,000
Accounts receivable	120,000
Inventory	75,000
Property, plant, and equipment, net	250,000
Total assets	$495,000
Accounts payable	$ 35,000
Long-term debt	100,000
Total liabilities	135,000
Common stock	300,000
Retained earnings	60,000
Total equity	360,000
Total liabilities and equity	$495,000

Based on this information, a common-size balance sheet for the company will show

a. long-term debt at 74%.
b. property, plant, and equipment, net at 69%.
c. retained earnings at 17%.
d. accounts receivable at 24%.

38. The dollar value of a company's ending inventory on its balance sheet was $500,000; $600,000; and $400,000 for Years 1, 2, and 3, respectively. In preparing a horizontal analysis with Year 1 as the base year, the percentage change shown for Year 3 would be

a. (25%).
b. (20%).
c. 20%.
d. 80%.

39. A company has earnings before interest and taxes of $100,000; income taxes of $30,000; and interest expenses of $10,000. The company's interest coverage ratio is

a. 6.
b. 7.
c. 9.
d. 10.

40. A company reports the following financial data.

Sales	$2,000,000
Cost of goods sold	800,000
Operating expenses	400,000
Interest expense	200,000
Income tax	300,000

The company's operating profit margin percentage is

a. 15%.
b. 30%.
c. 40%.
d. 80%.

41. A mobile home manufacturer has a quick ratio of 2.0. Assuming nothing else changes, which one of the following actions would decrease the company's quick ratio?

a. Collecting cash from issuing stock.
b. Writing off obsolete inventory.
c. Converting short-term debt into long-term debt.
d. Buying inventory on credit with 30-day terms.

42. A convenience store owner purchased three cartons of milk on June 1 for a total of $9 and six cartons of milk on June 15 for a total of $12. If the store sold five cartons of milk during June, what would be the value of its ending inventory as of June 30 under the LIFO method?

a. $8.
b. $10.
c. $11.
d. $21.

43. On October 1, a company purchased 50 units of inventory at $8 per unit. On October 5, the company bought another 100 units at $6 per unit. If the company sold 25 units on October 7, what would be the value of its ending inventory according to the FIFO method of inventory valuation?

a. $150.
b. $200.
c. $800.
d. $850.

44. A company issues a 10-year bond with a face value of $1,000,000, paying 7% interest, and receives $1,070,000 cash. What is the correct journal entry to record this sale?

a. Debit: bonds payable $1,000,000; credit: owner's equity $1,000,000.
b. Debit: cash $1,000,000; credit: bonds payable $1,000,000.
c. Debit: cash $1,070,000; credit: bonds payable $1,000,000; credit: premium on bonds $70,000.
d. Debit: cash $1,000,000; debit: unrecognized gain on sale of bond $70,000; credit: bonds payable $1,000,000; credit: premium on bonds $70,000.

45. A company's annual sales were $350,500. Operating expenses were 25%, and cost of goods sold was 40% during this period. What was the company's gross profit during this period?

a. $122,675.
b. $210,300.
c. $262,875.
d. $350,500.

46. A company purchased $250,000 in inventory during the month of July. Inventory balances were $750,000 on July 1 and $89,000 on July 31. What was the company's cost of sales during the month of July?

a. $500,000.
b. $661,000.
c. $911,000.
d. $1,000,000.

47. A company purchases five laptops at $2,000 each. The anticipated life of the laptops is four years with no salvage value. What is the book value of the computers at the end of the first year using the sum-of-the-years digits depreciation method?

a. $7,500.
b. $6,000.
c. $1,500.
d. $1,200.

48. A rental car company recently purchased a fleet of automobiles at a cost of $1,000,000. At the end of their five-year life cycle, the automobiles will only be worth $15,000. Using straight-line depreciation, what would be the accumulated depreciation at the end of Year 3?

a. $197,000.
b. $200,000.
c. $591,000.
d. $594,000.

49. On March 31, Company X declares a $0.52 per share dividend for all holders of record. There are 90,000 shares outstanding as of March 15 and 100,000 shares outstanding as of March 31. What is the correct entry to record the dividend declaration?

a. Debit: dividends $52,000; credit: cash $52,000.
b. Debit: dividends payable $52,000; credit: cash $52,000.
c. Debit: dividends $52,000; credit: dividends payable $52,000.
d. Debit: dividends $46,800; credit: dividends payable $46,800.

<u>Section C. Planning and Budgeting</u>

1. Which one of the following is correct about the major objectives of budgeting?

a. Foster the planning of operations, provide a framework for performance evaluation, and promote communication and coordination among an organization's segments.
b. Foster the planning of operations, facilitate the identification of blame for missed budget predictions, and ensure goal congruence between superiors and subordinates.
c. Define responsibility centers, provide a framework for performance evaluation, and promote communication and coordination among an organization's segments.
d. Define responsibility centers, facilitate the identification of blame for missed budget predictions, and ensure goal congruence between superiors and subordinates.

2. When properly developed and administered, budgets provide the following advantages to an organization **except** to

a. provide a structure for measuring performance.
b. motivate managers and other employees.
c. ensure that the organization makes a profit.
d. promote the efficient allocation of resources.

3. In developing the budget for the next year, which one of the following approaches would **most** likely result in a successful budget with the **greatest** amount of positive motivation and goal congruence?

a. Permit the divisional manager to develop the goal for the division that in the manager's view will generate the greatest amount of profits.
b. Have senior management develop the overall goals and permit the divisional manager to determine how these goals will be met.
c. Have the divisional and senior management jointly develop goals and objectives while constructing the corporation's overall plan of operation.
d. Have the divisional and senior management jointly develop goals and the divisional manager develop the implementation plan.

4. Which one of the following statements concerning approaches for the budget development process is correct?

a. The authoritative approach to budgeting discourages strict adherence to strategic organizational goals.
b. To prevent ambiguity, once departmental budgeted goals have been developed, they should remain fixed even if the sales forecast upon which they are based proves to be wrong in the middle of the fiscal year.
c. With the information technology available, the role of budgets as an organizational communication device has declined.
d. Since department managers have the most detailed knowledge about organizational operations, they should use this information as the building blocks of the operating budget.

5. A company pays its production manager an annual bonus based on how well the manager performs against the production department's annual budgets. The production manager has been overestimating expenses in the past few years to obtain a higher bonus payment. The production manager's actions are **best** described as

a. motivating employee effort.
b. building budgetary slack.
c. balancing production costs.
d. setting budgeted performance.

6. Which one of the following **best** describes the order in which budgets should be prepared when developing the annual master operating budget?

a. Production budget, direct material budget, revenue budget.
b. Production budget, revenue budget, direct material budget.
c. Revenue budget, production budget, direct material budget.
d. Revenue budget, direct material budget, production budget.

7. A budgeting approach that requires a manager to justify the entire budget for each budget period is known as

a. performance budgeting.
b. program budgeting.
c. zero-based budgeting.
d. incremental budgeting.

8. A company's Board of Directors has requested a full in-depth review of all budgeted items for next fiscal year's operating budget. The controller of the company subsequently advised all business unit heads that the company will not automatically approve operating budget items for the next fiscal year simply because they were approved in the past, and that all operating budget items for the next fiscal year will need to be justified. Based on this information, which one of the following budgeting systems is the company **most** likely using?

a. Activity-based budgeting.
b. Zero-based budgeting.
c. Project budgeting.
d. Flexible budgeting.

9. The type of budget that is continually updated to add a new budget period as the most recent budget period is completed is called a(n)

a. activity-based budget.
b. flexible budget.
c. rolling budget.
d. zero-based budget.

10. When compared to static budgets, flexible budgets

a. offer managers a more realistic comparison of budgeted and actual fixed cost items under their control.
b. provide a better understanding of the capacity variances during the period being evaluated.
c. encourage managers to use fewer fixed cost items and more variable cost items that are under their control.
d. offer managers a more realistic comparison of budget and actual revenue, and cost items under their control.

11. A company prices its products by adding 30% to its cost. The company anticipates sales of \$715,000 in July, \$728,000 in August, and \$624,000 in September. The company's policy is to have on hand enough inventory at the end of the month to cover 25% of the next month's sales. What will be the cost of the inventory that the company should budget for purchase in August?

a. \$509,600.
b. \$540,000.
c. \$560,000.
d. \$680,000.

12. A company has budgeted sales of 6,300 units for the next fiscal year and desires to have 590 good units on hand at the end of that year. The beginning inventory is 470 units. The company has found from past experience that 10% of all units produced do not pass final inspection and must therefore be destroyed. How many units should the company plan to produce in the next fiscal year?

a. 6,890.
b. 7,062.
c. 7,133.
d. 7,186.

13. The upcoming period's budget information for a company is shown below.

Planned sales	4,000 units
Finished goods, beginning inventory	900 units
Finished goods, ending inventory	600 units
Direct materials, beginning inventory	4,300 units
Direct materials, ending inventory	4,500 units

The company's production budget will show total units to be produced of

a. 3,700.
b. 4,000.
c. 4,300.
d. 4,600.

14. A company that makes men's jackets would like to maintain 20,000 yards of fabric in ending inventory. The beginning fabric inventory is expected to contain 25,000 yards. The expected yards of fabric needed for sales is 90,000. How many yards of fabric does the company need to purchase?

a. 85,000.
b. 90,000.
c. 95,000.
d. 135,000.

15. A company planned to manufacture and sell 5,600 toys for ¥750,000 and incur ¥400,000 in variable expenses and ¥255,000 in fixed expenses. By the end of the year, the company manufactured and sold 4,500 toys for ¥650,000; it incurred ¥375,000 in variable expenses and ¥195,000 in fixed expenses. What is the company's operating income variance for the year?

a. ¥15,000 unfavorable.
b. ¥25,000 favorable.
c. ¥75,000 unfavorable.
d. ¥100,000 unfavorable.

16. A company planned to sell 2,000 units in its master budget. Its budgeted sales revenue is €500,000; budgeted variable expense is €350,000; and budgeted fixed expense is €45,000. If the company only manufactured and sold 1,750 units during the year, how much is the company's flexible budget operating income?

a. €42,500.
b. €86,250.
c. €91,875.
d. €105,000.

17. All of the following would appear on a projected schedule of cost of goods manufactured **except**

a. ending work-in-process inventory.
b. beginning finished goods inventory.
c. the cost of raw materials used.
d. applied manufacturing overhead.

18. A company that manufactures furniture is establishing its budget for the upcoming year. All of the following items would appear on its overhead budget **except** for the

a. overtime paid to the workers who perform production scheduling.
b. cost of glue used to secure the attachment of the legs to the tables.
c. fringe benefits paid to the production supervisor.
d. freight charges paid for the delivery of raw materials to the company.

19. A company's selected information for the recent period is shown below.

Beginning inventory of finished goods	$100,000
Cost of goods manufactured	700,000
Ending inventory of finished goods	200,000
Beginning work-in-process inventory	300,000
Ending work-in-process inventory	50,000

What is the company's cost of goods sold?

a. $500,000.
b. $600,000.
c. $800,000.
d. $950,000.

20. A company operates 10 offices. In the prior year, the total cost of operating the offices was $1,000,000, of which $140,000 consisted of fixed costs. All else remaining equal, what would be the budgeted costs if the company were to operate 12 offices?

a. $1,028,000.
b. $1,032,000.
c. $1,172,000.
d. $1,200,000.

21. A company uses a calendar year and prepares a cash budget for each month of the year. Which one of the following items should be considered when developing July's cash budget?

a. Income taxes withheld from employees' June paychecks to be remitted to the government in July.
b. Quarterly cash dividends scheduled to be declared on July 15 and paid on August 6 to shareholders of record as of July 25.
c. Property taxes levied in the last calendar year scheduled to be paid quarterly in the coming year during the last month of each calendar quarter.
d. Recognition that 0.5% of the July sales on account will be uncollectible.

22. A company's budgeting process that includes input from all levels of management uses standards that would be **best** described as

a. authoritative.
b. discretionary.
c. participative.
d. zero-based.

23. A company’s budgeting process for direct labor begins by determining an average wage rate for all its production employees when manufacturing one unit of production. This rate becomes part of the company’s budgeted standard cost for direct labor. A management consultant who advised the company on its budgeting process said that when determining the budgeted standard cost for direct labor, the wage rate

a. should be determined only after the quantity standard for direct labor is defined.
b. can be calculated at any point during the budgeting process.
c. is calculated at the end of the budgeting process once all relevant costs are known.
d. can be defined only after determining the budgeted standard cost for direct materials.

24. A budget developed by using budgeted prices and budgeted costs based on the actual output in the budget period is a(n)

a. flexible budget.
b. continuous budget.
c. life-cycle budget.
d. operating budget.

25. The **first** step in developing a master budget is to prepare the

a. cash budget.
b. sales budget.
c. production budget.
d. selling and administrative budget.

26. A company sold 12,000 units of a basic product and 8,000 units of an enhanced product in Year 1. Sales volumes of the basic product and the enhanced product are expected to increase 25% and 20%, respectively, for Year 2. The current selling price of the basic product is $150 per unit, and the enhanced product sells for $200 per unit. The selling prices of both products will increase by $15 per unit for Year 2. What is the company’s total budgeted sales for Year 2?

a. $3,400,000.
b. $3,700,000.
c. $4,170,000.
d. $4,539,000.

27. A manufacturing company is preparing its sales budget. It projects sales of 34,000 units of XT19 in July; 32,000 in August; and 29,000 in September. Management requires that monthly ending inventory equals 25% of next month's projected sales. The beginning inventory on July 1 was 8,500 units. How many units of XT19 must be produced in the month of August?

a. 29,000 units.
b. 31,250 units.
c. 32,000 units.
d. 33,500 units.

28. A company has projected unit sales of 110,000 for the month of April; 140,000 for May; and 145,000 for June. Production volume is scheduled for these three months at 119,000; 141,500; and 149,500, respectively. The direct labor standard is 45 minutes per unit, and the direct labor rate is set at $18.50 per hour. What is the total budgeted direct labor cost for these three months?

a. $5,480,625.
b. $5,688,750.
c. $7,307,500.
d. $7,585,000.

29. An exercise equipment manufacturer uses the variable costing method and has determined that the total manufacturing costs of its single 30-pound barbell is $27 per unit. The direct material cost per unit is $16. The allocated administration expenses are $6 per unit. The allocated fixed rental costs are $3 per unit. If no other costs are incurred, the direct labor cost per unit is

a. $2.
b. $5.
c. $8.
d. $11.

30. Which one of the following is a characteristic of a continuous budget?

a. It is adjusted throughout the period for changing environmental factors.
b. It is available for a specified future period by adding a period to the period that just ended.
c. It is created after the organization has been operating for at least one period.
d. It uses the prior period's actual results as the current period's budget.

31. Which one of the following budgets is regarded as the foundation of the master budget?

a. Cash.
b. Operating.
c. Production.
d. Sales.

32. Which one of the following would cause a company's production budget to decrease?

a. An increase in direct labor costs per unit.
b. A decrease in units produced per direct labor hour.
c. A decrease in required ending inventory.
d. An increase in beginning direct labor inventory.

33. A construction company designs and builds custom houses for consumers. Customers have several base plans to choose from, and modifications can be made from those plans. The modifications can range from very minor to significant. The houses generally take three months to one year to design and build depending upon the amount of customization. What is the **best** type of budgeting for this business situation?

a. Project budgeting.
b. Activity-based budgeting.
c. Flexible budgeting.
d. Rolling/continuous budgeting.

34. To meet budgetary goals more easily, a company controller underestimates the amount of revenue and overestimates fixed selling and administrative expenses during the budgeting process. This is an example of

a. flexible budgeting.
b. budgetary slack.
c. zero-based budgeting.
d. budgetary variance.

35. Which one of the following is in a company's cash budget?

a. Depreciation of plant equipment.
b. Amortization of patent costs.
c. Conversion of debt for equity.
d. Collection of accounts receivable.

36. Which one of the following is the major feature of zero-based budgeting?

a. It assumes all activities are legitimate and worthy of receiving budget increases to cover any increased costs.
b. It evaluates each activity and determines whether it should be maintained as it is, reduced, or eliminated.
c. It uses the previous year's budget and adjusts it for inflation.
d. It focuses on planned capital outlays for property, plant, and equipment.

37. A company incurred $200,000 of manufacturing costs during the month, with a beginning finished goods inventory of $20,000 and an ending finished goods inventory of $15,000. Assuming no work-in-process inventories, the company's cost of goods sold was

a. $220,000.
b. $205,000.
c. $200,000.
d. $105,000.

38. A company produced 100,000 units and had the following cost information for the last fiscal year.

Direct labor	$200,000
Direct materials	100,000
Manufacturing overhead	200,000
Selling and administrative expenses	150,000

All costs are variable except for $100,000 of manufacturing overhead and $100,000 of selling and administrative expenses. Using flexible budgeting, what are the total costs associated with producing and selling 110,000 units?

a. $450,000.
b. $650,000.
c. $695,000.
d. $715,000.

Section D. Cost Management and Performance Metrics

1. A project manager has been asked to provide an explanation regarding a $2,220 favorable material variance on a playground equipment project. After further analysis, the project manager was able to break down the material variance to an unfavorable price variance of $1,700 and a favorable quantity variance of $3,920. Which one of the following is the **best** explanation of the variances?

a. The decision by the purchasing department to use a new supplier resulted in the purchase of the materials for a lower price.
b. The excellent scheduling by the production department enabled the purchasing department to reduce shipping costs.
c. The purchasing department purchased a higher-quality material, resulting in fewer wasted materials.
d. The human resources department failed to hire adequately trained workers, causing materials to be wasted.

2. A company prepared a master budget based on 100 budgeted sales units with a $100 sales price per unit; a variable cost per unit of $50; and $2,000 in total fixed cost. The actual sales quantity was 70 units. When preparing a flexible budget, the operating income is

a. $1,500.
b. $3,000.
c. $3,500.
d. $5,000.

3. Which one of the following statements is **correct** concerning a flexible budget cost formula?

a. Variable costs are stated per unit, and fixed costs are stated in total.
b. Variable costs are stated in total, and fixed costs are stated per unit.
c. Variable costs are stated in total, and fixed costs are stated in total.
d. Variable costs are stated per unit, and fixed costs are stated per unit.

4. A company produces ready-to-bake pie crusts. In deciding whether to process this product further into complete ready-to-bake pies by adding filling, relevant dollar amounts to consider would include all of the following **except** the

a. cost to add the filling.
b. cost to manufacture the crusts.
c. selling price of the complete pies.
d. selling price of the crusts.

5. For a given time period, a company had a favorable material quantity variance, a favorable direct labor efficiency variance, and a favorable fixed overhead volume variance. Of the following, the one factor that could **not** have caused all three variances is

a. the purchase of higher-quality materials.
b. the use of less-skilled workers.
c. the purchase of more efficient machinery.
d. an increase in production supervision.

6. A company has a direct labor price variance that is favorable. Of the following, the **most** serious concern the company may have about this variance is that

a. the circumstances giving rise to the favorable variance will not continue in the future.
b. the production manager may not be using human resources as efficiently as possible.
c. the cause of the favorable variance may result in other larger unfavorable variances in the value chain.
d. actual production is less than budgeted production.

7. At the beginning of the year, a company prepared the following monthly budget for direct materials.

Units produced and sold	10,000
Direct material	$15,000

At the end of the month, the company's records showed that 12,000 units were produced and sold, and $20,000 was spent on direct materials. The variance for direct materials is

a. $2,000 favorable.
b. $2,000 unfavorable.
c. $5,000 favorable.
d. $5,000 unfavorable.

8. A company has an unfavorable materials efficiency (usage) variance for a particular month. Which one of the following is **least** likely to be the cause of this variance?

a. Inadequate training of direct labor employees.
b. Poor performance of shipping employees.
c. Poor design of the production process or product.
d. Poor quality of raw materials.

9. A standard costing system uses

a. actual prime costs with overhead applied based upon the actual cost driver units incurred.
b. actual prime costs with overhead applied based upon the standard cost driver units allowed.
c. standard prime costs with overhead applied based upon the actual cost driver units incurred.
d. standard prime costs with overhead applied based upon the standard cost driver units allowed.

10. During the month of May, a company experienced a significant unfavorable material efficiency variance in the production of its single product at one of its plants. Which one of the following reasons would **least** likely explain the unfavorable variance?

a. Inferior materials were purchased.
b. Actual production was lower than planned production.
c. Workers used were less skilled than expected.
d. Replacement production equipment had just been installed.

11. Which one of the following refers to a cost that remains the same as the volume of activity decreases within the relevant range?

a. Average cost per unit.
b. Variable cost per unit.
c. Unit fixed cost.
d. Total variable cost.

12. A company is about to introduce a new product. Sales of this product are planned at $100,000 for the first year. Sales commission expense is budgeted at 8% of sales plus the marketing manager's incentive budgeted at an additional 0.5%. The preparation of a product brochure will require 20 hours of marketing salaried staff time at an average rate of $100 per hour, and 10 hours at $150 per hour for an outside illustrator's effort. The variable marketing cost for this new product will be

a. $8,000.
b. $8,500.
c. $10,000.
d. $10,500.

13. Common fixed costs often make up a significant portion of the cost of a product. All of the following are reasons for common cost allocation to cost objects **except** to

a. reduce total costs identified with products.
b. measure income and assets for external reporting purposes.
c. justify costs for reimbursement purposes.
d. provide information for economic decision making.

14. A company has discovered that the cost of processing customer invoices is strictly variable within the relevant range. Which one of the following statements concerning the cost of processing customer invoices is **incorrect**?

a. The total cost of processing customer invoices will increase as the volume of customer invoices increases.
b. The cost per unit for processing customer invoices will decline as the volume of customer invoices increases.
c. The cost of processing the 100th customer invoice will be the same as the cost of processing the first customer invoice.
d. The average cost per unit for processing a customer invoice will equal the incremental cost of processing one more customer invoice.

15. A company has found that its total electricity cost has both a fixed component and a variable component within the relevant range. The variable component seems to vary directly with the number of units produced. Which one of the following statements concerning the company's electricity cost is **incorrect**?

a. The total electricity cost will increase as production volume increases.
b. The total electricity cost per unit of production will increase as production volume increases.
c. The variable electricity cost per unit of production will remain constant as production volume increases.
d. The fixed electricity cost per unit of production will decline as production volume increases.

16. When comparing normal costing systems with actual costing systems, which one of the following is **not** a benefit associated with a normal costing system?

a. More timely costing of jobs and products.
b. A smoothing of product costs throughout the period.
c. Improved accuracy of job and product costing.
d. A more economical way of attaching overhead to a job or product.

17. If a manufacturing company uses variable costing to cost inventories, which of the following costs are considered inventoriable costs?

a. Only raw material, direct labor, and variable manufacturing overhead costs.
b. Only raw material, direct labor, and variable and fixed manufacturing overhead costs.
c. Only raw material, direct labor, variable manufacturing overhead, and variable selling and administrative costs.
d. Only raw material and direct labor costs.

18. A company has just completed the first month of producing a new product but has not yet shipped any of this product. The product incurred variable manufacturing costs of $5,000,000; fixed manufacturing costs of $2,000,000; variable marketing costs of $1,000,000; and fixed marketing costs of $3,000,000. If the company uses the variable cost method to value inventory, the inventory value of the new product would be

a. $5,000,000.
b. $6,000,000.
c. $8,000,000.
d. $11,000,000.

19. Which one of the following is the **best** reason for using variable costing?

a. Fixed factory overhead is more closely related to the capacity to produce than to the production of specific units.
b. All costs are variable in the long term.
c. Variable costing is acceptable for income tax reporting purposes.
d. Variable costing usually results in higher operating income than if a company uses absorption costing.

20. A company sells specialty advertising items that are custom designed and produced to meet each customer's specific needs. The **most** appropriate cost accumulation system for the company to use is

a. actual costing.
b. job order costing.
c. life-cycle costing.
d. process costing.

21. A company produces a variety of products, and the company's operations include a high level of fixed costs. What type of costing system should be recommended?

a. Job order costing.
b. Process costing.
c. Process value analysis.
d. Activity-based costing.

22. When using activity-based costing, which one of the following departmental activities would be expected to use machine hours as a cost driver to allocate overhead costs to production?

a. Plant cafeteria.
b. Machine setups.
c. Material handling.
d. Robotics painting.

23. A company considers the implementation of an activity-based costing system. Which one of the following statements is **true**?

a. The company should focus on manufacturing activities and avoid implementation with service-type functions.
b. The company would probably find a lack of software in the marketplace to assist with the related recordkeeping.
c. The company would normally gain added insights into the causes of cost.
d. The company would likely use fewer cost pools than it did under more traditional accounting methods.

24. All of the following would likely be used as a cost allocation base in activity-based costing **except** the

a. number of different materials used to manufacture the product.
b. units of materials used to manufacture the product.
c. number of vendors supplying the materials used to manufacture the product.
d. cost of materials used to manufacture the product.

25. In practice, items such as wood screws and glue used in the production of school desks and chairs would **most** likely be classified as

a. direct labor.
b. factory overhead.
c. direct materials.
d. period costs.

26. Sunk costs are **not** relevant in the decision-making process because they are

a. fixed costs.
b. historical costs.
c. indirect costs.
d. period costs.

27. In a management decision process, the cost measurement of the benefits sacrificed due to selecting an alternative use of resources is **most** often referred to as a(n)

a. relevant cost.
b. sunk cost.
c. opportunity cost.
d. differential cost.

28. Profits that are lost by moving an input from one use to another are referred to as

a. out-of-pocket costs.
b. cannibalization charges.
c. replacement costs.
d. opportunity costs.

29. A company produced 7,600 plumbing fixtures last month. The standard labor to produce one unit is 45 minutes, and the standard labor rate is $16 per hour. The actual direct labor during the period was 5,500 hours with a total cost of $99,750. What is the direct labor efficiency variance?

a. $3,200 favorable.
b. $3,200 unfavorable.
c. $8,550 favorable.
d. $8,550 unfavorable.

30. The CEO of an auto manufacturing company would like to have an impartial performance evaluation system so that managers can be fairly rewarded. Under the current costing system, managers may inflate short-term operating income by manipulating inventory levels. To meet the CEO's expectation, the company should switch from the current

a. absorption costing approach to the normal costing approach.
b. variable costing approach to the normal costing approach.
c. absorption costing approach to the variable costing approach.
d. variable costing approach to the absorption costing approach.

31. A boutique-style garment company manufactures customized suits. The number of customized suits produced by the company fluctuates widely from month to month. Which of the following costing systems would be **most** appropriate for the company?

a. Job order costing system and actual costing system.
b. Job order costing system and normal costing system.
c. Process costing system and actual costing system.
d. Process costing system and normal costing system.

32. A pizza restaurant sells 4,000 pizzas per month for $10 each. The restaurant has the capacity to sell 6,000 pizzas per month. The cost of materials for one pizza is as follows.

Dough	$0.66
Tomatoes	0.62
Cheese	0.72
Toppings	0.75
Other variable costs	2.50
Total variable costs	$5.25

The restaurant also incurs $16,000 of costs per month, which includes rent, salaries, insurance, and depreciation. Management thinks that it can sell 15% more pizzas by reducing the sales price to $9. What would the monthly operating income be if the sales price for a pizza is reduced to $9?

a. $(1,000).
b. $1,250.
c. $6,500.
d. $9,875.

33. Within the relevant range, fixed cost per unit will

a. increase as the activity level increases.
b. decrease as the activity level decreases.
c. remain the same as the activity level decreases.
d. decrease as the activity level increases.

34. A company's master budget indicated that 50,000 units of finished goods should be produced using 25,000 feet of materials at $4 per foot. The company actually produced 48,000 units of finished goods, purchased 27,000 feet of materials at $4.25 per foot, and used 25,000 feet of materials in production. The direct material efficiency variance is

a. $0.
b. $4,000 unfavorable.
c. $6,000 unfavorable.
d. $8,000 unfavorable.

35. In which one of the following situations will ending inventory on the balance sheet computed under absorption costing be exactly equal to ending inventory computed under variable costing?

a. When the number of units produced is more than the number of units sold.
b. When there is no fixed manufacturing overhead cost.
c. When the direct material price variance is zero.
d. When there is no variable manufacturing overhead cost.

36. A company's annual direct materials budget to produce 300,000 units is as follows.

150,000 pounds of material @ \$0.75 per pound = \$112,500

During the year, the company produced 310,000 units of finished goods using 0.48 pounds per unit at a cost of \$0.76 per pound. The direct material efficiency variance is

a. \$588 unfavorable.
b. \$900 favorable.
c. \$1,488 unfavorable.
d. \$4,650 favorable.

37. A pizza restaurant has recently experienced a decline in profit margin although sales have remained steady. An analysis of direct cost inputs revealed the following.

- A favorable materials price variance
- An unfavorable materials quantity variance
- A favorable labor rate variance
- An unfavorable labor efficiency variance

Which one of the following is the **most** likely cause of the decline in the profit margin?

a. The cheese supplier has raised prices.
b. New employees are still learning the recipes.
c. The employees are being paid more than the budgeted standard rates.
d. The employees are working fewer hours than budgeted standard hours.

Section E. Professional Ethics

1. After a competitive bidding process, a company's purchasing director awarded a contract to the lowest bidder, an organization in which the director has a personal interest. Since the winning bidder had the lowest price, the director did not disclose the relationship with the entity. In fact, the director frequently highlighted the fact that the winning bidder had the **most** experience servicing contracts of this nature. In accordance with the IMA Statement of Ethical Professional Practice, which one of the overarching ethical principles did the purchasing director violate?

a. None, because a competitive bidding process was utilized.
b. Fairness, because the director did not tell the truth about the relationship with the vendor.
c. Objectivity, because the director's relationship with the bidder could have impaired the director's judgment.
d. Honesty, because the director was not being truthful about the experience of the bidder.

2. Recently, Fan Club Inc. submitted a budget for the coming year to management. Included in the budget were the plans for a new product, a rechargeable fan. The new fan will not only last longer than the competitor's product but is also quieter. While not yet approved, the budget called for aggressive advertising to support sales targets, as the business community was not yet aware that Fan Club was close to production of a new fan. However, a member of the management accounting staff shared the budget with a distributor. In accordance with the IMA Statement of Ethical Professional Practice, which one of the following would **best** represent an ethical conflict in this situation?

a. The budget has not been approved and therefore is not for publication.
b. The price has not been established, so expectations must be managed.
c. The staff member exposed the company to a potential lawsuit.
d. The employee should refrain from disclosing confidential information.

3. An IMA member discovers a problem that could mislead users of their company's financial data and has informed their immediate supervisor. The IMA member should report the circumstances to the audit committee and/or the Board of Directors only if the immediate supervisor

a. is the company's CEO and knows about the situation but refuses to correct it.
b. reports to the CEO but the CEO refuses to correct it.
c. assures the member that the problem will be resolved.
d. reports the situation to a higher manager.

4. Andrew Babbitt is a management accountant at Ace Mining Corporation (AMC), a processor of ores and minerals. Babbitt learned that AMC had been disposing of hazardous waste materials in a nearby residential landfill. Babbitt knew that the waste materials could pose a danger to the residents in the area and that there could be legal ramifications for disposing hazardous waste in a residential landfill. When Babbitt discussed the issue with a supervisor the next morning, Babbitt was told to ignore it. Due to the significance of the matter, Babbitt decided to discuss the matter with a personal attorney and then notified the appropriate authorities. In accordance with the IMA Statement of Ethical Professional Practice, which one of the following is the correct evaluation of Babbitt's decision to notify the authorities?

a. Babbitt's actions were appropriate as an immediate action.
b. Babbitt's actions were inappropriate because they violated the confidentiality standard.
c. Babbitt's actions were appropriate only if the attorney indicated that there was a clear violation of the law.
d. Babbitt's actions were inappropriate because they involved insubordination.

5. An accountant asked a supervisor about the classification of a large account receivable that had been outstanding for more than a year but is still being reported as a current asset. The supervisor explained that the balance related to a local customer who had been having temporary cash flow issues. The supervisor knows the customer personally and is confident that the company will pay the balance eventually. The accountant was instructed to keep the asset classification as is to avoid questions from external auditors. In accordance with the IMA Statement of Ethical Professional Practice, the supervisor violated all of the following ethical standards, **except**

a. competence.
b. confidentiality.
c. integrity.
d. credibility.

6. An accountant at Smith Corporation was surprised to learn that one of its main suppliers is owned by Smith's vice president of purchasing. When the accountant mentioned this relationship to their immediate supervisor, the accountant was told that the supplier provides high-quality products at a market price and therefore no conflict of interest exists. Under the IMA Statement of Ethical Professional Practice, the accountant

a. should follow the company's established policies about reporting apparent conflicts of interest.
b. is not obligated to act because the vice president of purchasing is not required to follow IMA practices.
c. does not need to act since the supplier provides high-quality goods at market prices.
d. should first consult an attorney about any legal obligations and risks related to this issue.

7. Employee X observes that Employee Y is improperly altering department records to meet month-end goals. These records are for internal use only and do not impact the company's financial records. Employee X notifies a supervisor of the impropriety, and the supervisor advises Employee X that the supervisor instructed Employee Y to alter the records and an adjustment would be made the subsequent month to correct the records. Using the IMA Statement of Ethical Professional Practice, Employee X should

a. advise the supervisor that their behavior was unethical and not communicate the impropriety any further.
b. follow the organization's established procedures on the resolution of such conflict.
c. do nothing since the supervisor authorized the behavior.
d. communicate the unethical behavior to external authorities.

8. A company has a strong internal control structure in its accounting department. It has a high degree of duty segregation, regular reconciliations, strict reviews, and comprehensive internal audits. A fixed assets accountant, who thought they were underpaid for the work they do, has been contemplating the embezzlement of cash receipts processed by the accounts receivable department. The accountant plans to use these funds to sustain a gambling problem. Using the fraud triangle model, what is the **best** assessment of fraud risk for the company's situation?

a. Low, because both opportunity and rationalization are absent.
b. Medium, because opportunity is absent.
c. Medium, because rationalization is absent.
d. High, because pressure, opportunity, and rationalization are all present.

9. How can a management accountant use the fraud triangle to identify and manage the risk of fraud?

a. The fraud triangle provides a model for explaining the pressures, rationalizations, and opportunities that influence people to commit fraud.
b. The fraud triangle provides a model for examining the company's internal control environment in terms of its risk of fraud.
c. The fraud triangle provides a model for explaining the motives, means, and opportunities that influence people to commit fraud.
d. The fraud triangle provides a model for explaining how persuasion, coercion, and conviction influence people to commit fraud.

10. Which standard in the IMA Statement of Ethical Professional Practice states that financial management professionals should not engage in activities that might discredit the profession?

a. Competence.
b. Confidentiality.
c. Credibility.
d. Integrity.

11. Which one of the following is an example of an overarching ethical principle from the IMA Statement of Ethical Professional Practice?

a. Competence.
b. Confidentiality.
c. Fairness.
d. Integrity.

Fundamentals Exam
Sample Question Answers

Section A. General Accounting and Financial Management - Key

1. a.
2. d.
3. a.
4. b.
5. a.
6. d.
7. d.
8. b.
9. b.
10. d.
11. d.
12. a.
13. b.
14. c.
15. a.
16. d.
17. a.
18. d.
19. c.
20. a.
21. b.
22. c.
23. d
24. c.
25. c.
26. d.
27. a.
28. c.
29. c.
30. c.
31. d.
32. a.
33. c.
34. b.
35. b.
36. d.
37. c.
38. a.
39. b.
40. d.
41. c.
42. c.
43. b.
44. b.
45. d.
46. c.
47. a.
48. a.
49. b.
50. b.
51. c.
52. a.
53. a.
54. b.
55. c.
56. b.
57. b.
58. b.
59. c.
60. a.
61. d.
62. b.
63. c
64. b.

Section B. Financial Statement Preparation and Analysis - Key

1. c.
2. c.
3. d.
4. d.
5. c.
6. c.
7. b.
8. b.
9. a.
10. d.
11. a.
12. c.
13. c.
14. b.
15. b.
16. d.
17. c.
18. b.
19. c.
20. c.
21. d.
22. d.
23. a.
24. c.
25. d.
26. a.
27. b.
28. c.
29. b.
30. b.
31. c.
32. c.
33. d.
34. d.
35. b.
36. c.
37. d.
38. b.
39. d.
40. c.
41. d.
42. c.
43. c.
44. c.
45. b.
46. c.
47. b.
48. c.
49. c.

Section C. Planning and Budgeting - Key

1. a.
2. c.
3. d.
4. d.
5. b.
6. c.
7. c.
8. b.
9. c.
10. d.
11. b.
12. c.
13. a.
14. a.
15. a.
16. b.
17. b.
18. d.
19. b.
20. c.
21. a.
22. c.
23. a.
24. a.
25. b.
26. d.
27. b.
28. b.
29. d.
30. b.
31. d.
32. c.
33. a.
34. b.
35. d.
36. b.
37. b.
38. c.

Section D. Cost Management and Performance Metrics - Key

1. c.
2. a.
3. a.
4. b.
5. b.
6. c.
7. b.
8. b.
9. d.
10. b.
11. b.
12. b.
13. a.
14. b.
15. b.
16. c.
17. a.
18. a.
19. a.
20. b.
21. d.
22. d.
23. c.
24. d.
25. b.
26. b.
27. c.
28. d.
29. a.
30. c.
31. b.
32. b.
33. d.
34. b.
35. b.
36. d.
37. b.

Section E. Professional Ethics - Key

1. c.
2. d.
3. a.
4. c.
5. b.
6. a.
7. b.
8. b.
9. a.
10. d.
11. c.

Suggested Reading List

- *Financial and Managerial Accounting*, 16th edition, Warren, Taylor, Cengage, 2022.
- Datar, Srikant M., and Rajan**,** Madhav V., *Horngren's Cost Accounting: A Managerial Emphasis,* 17th edition, Prentice-Hall, Upper Saddle River, NJ, 2020.
- IMA, 2017, *IMA Statement of Ethical Professional Practice*, http://www.imanet.org/insights-and-trends/business-leadership-and-ethics/ima-statement-of-ethical-professional-practice.
- Brooks, Leonard J., Dunn, Paul, *Business and Professional Ethics: For Director, Executives & Accountants*, 8th edition, Cengage Learning, Boston, MA, 2018.

Ratio Definitions

<u>Section A General Accounting and Financial Management</u>

Section A.5 Managing a company's daily finances

b[1]. Net working capital = current assets – current liabilities

<u>Section B Financial Statement Preparation and Analysis</u>

Section B.2 Basic Financial Statement Analysis

a. Common size statement = line items on income statement and statement of cash flows presented as a percent of sales; line items on balance sheet presented as a percent of total assets
b. Common base year statements = (new line item amount / base year line item amount) x 100%
c. Annual growth rate of line items = (new line item amount – old line item amount) / old line item amount x 100%

Section B.3 Financial Statement Ratio Analysis
Unless otherwise indicated, end of year data is used for balance sheet items; full year data is used for income statement and statement of cash flow items.

Liquidity

a(1) Current ratio = current assets / current liabilities
a(2) Quick ratio or acid test ratio = (cash + marketable securities + accounts receivable) / current liabilities
a(3) Cash ratio = (cash + marketable securities) / current liabilities
a(4) Cash flow ratio = operating cash flow / current liabilities
a(5) Net working capital ratio = net working capital / total assets

Leverage

d(1) Debt to equity ratio = total debt / equity
d(2) Long-term debt to equity ratio = (total debt – current liabilities) / equity
d(3) Debt to total assets ratio = total debt / total assets
d(4) Times interest earned = EBIT / interest expense

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[1] Letter references refer to subtopics in Learning Outcome Statements

Activity

e(1) Accounts receivable turnover = credit sales / average gross accounts receivables
e(2) Inventory turnover = cost of goods sold / average inventory
e(3) Accounts payable turnover = credit purchases / average accounts payable

f(1) Days sales in receivables = average accounts receivable / (credit sales / 365), or
= 365 / accounts receivable turnover
f(2) Days sales in inventory = average inventory / (cost of sales / 365), or
= 365 / inventory turnover
f(3) Days purchases in payables = average payables / (purchase / 365), or
= 365 / payables turnover

g(1) Total asset turnover = sales / average total assets
g(2) Fixed asset turnover = sales / average net plant, property and equipment

Profitability

h(1) Gross profit margin percentage = gross profit / sales
h(2) Operating profit margin percentage = operating income / sales
h(3) Net profit margin percentage = net income / sales

i(1) ROA = net income / average total assets
i(2) ROE = net income / average equity

Section D Cost Management and Performance Metrics

Section D.4 Performance Measures

b. ROI = Income of business unit / Assets of business unit
d. Residual Income (RI) = Income of business unit – (Assets of business unit x required rate of return)

Note: "Income" means operating income unless otherwise noted

Section D.5 Cost Information for Decision Making

a. Breakeven volume = fixed costs / unit contribution margin